

Acquisition Value Tax VS. Ad Valorem Phase-In Protection

Predictability can be provided by two methods in property tax appraisals and taxation. California has adopted an "Acquisition Value Tax," while Florida and Michigan (among others) utilize an "Ad Valorem Phase-in Protection." These two methods are distinctly different, yet provide the same benefits and protection for residents.

Following is a description, and side-by-side comparison of both methods...

COMPARISON

ACQUISITION VALUE TAX

AD VALOREM PHASE-IN PROTECTION

Brief Summary Description

Replaces the 6-year MDOR reappraisal cycle.
The assessed value is increased at the inflation rate (CPI, up to 2% per year) on all properties.

Retains the 6-year MDOR reappraisal cycle.
The assessed value is increased at the inflation rate (CPI, up to 2% per year) only on properties which have risen in value.

At time of sale, the assessed value is adjusted to the sale (acquisition) price.

At time of sale, the assessed value is adjusted to the full, current MDOR appraisal.

Starting Point

The Assessed Value starts at the 2002 appraisal.
The new 2003 appraisal is ignored.

The Assessed Value starts at the 2002 appraisal. However, the new 2003 appraisal is allowed to be phased-in under the new legislation (at CPI, up to 2% per year).

Annual Increase

CPI, up to a maximum of 2% on all properties.

CPI, up to a maximum of 2% only on properties in which the MDOR appraisal value is higher than the assessed value. *7 month occupancy*

Rule applies

Appraisal at Time of Sale

Assessed value is set at sale (acquisition) price.

Assessed value is set at full MDOR appraisal.

Deflation Adjustment

Appeal procedure on an individual and/or countywide basis.

None required. For properties which have decreased in value, the appraisal is adjusted immediately at time of 6-year reappraisal.

ADDITIONAL PROVISIONS

1st Time Home Buyers Incentive

Assessed value is set at 70% of acquisition price, with balance phased-in over 6 years.

Assessed value is set at 70% of appraisal price, with balance phased-in over 6 years.

Heritage Clause

Property can be passed from one generation to the next without step-up.

Property can be passed from one generation to the next without step-up. Heritage Clause could be subject to Homestead Qualification (7mo residency).

Over-55 Carryover

Individuals over 55 years of age may carry over their acquisition value to another home of the same or lower value.

Unneeded. The disparity (appraisal minus assessment) is lower, and only exists on rapidly inflating properties.

SUPPORTER ARGUMENTS

- 1) Predictability – in annual tax payments.
- 2) Protection – for retired residents.
- 3) Fairness – property taxes cannot soar simply because a neighboring property sells at a highly-inflated price.
- 4) Lower costs. [MDOR disputes this.]
- 5) Appraises high-end properties more accurately. [MDOR disputes this.]

- 1) Predictability – in annual tax payments.
- 2) Protection – for retired residents.
- 3) Fairness – property taxes cannot soar simply because a neighboring property sells at a highly-inflated price.

<1-3 are the same!>

OPPOSITION ARGUMENTS

- 1) Two adjacent, similar homes can be appraised at widely disparate values.
- 2) Hurts Montana residents who must relocate because acquisition (sale) price is usually higher than current appraisal.
- 3) Hurts real estate sales and home builders because acquisition (sale) price is usually higher than current appraisal.
- 4) Reappraisal of deflating properties in an economic downturn can become an administrative nightmare.
- 5) Commercial and multi-family properties must still be periodically reappraised since they do not turn over as frequently as residences.

- 1) Two adjacent, similar homes will be appraised equally. However one owner might be paying lower taxes if his current appraisal price is not fully phased in.